

VERIFICATION OF THE RECEIPT OF PROPERTY

PAID FOR UNDER THE FEDSTRIP/MILSTRIP SYSTEMS

I. PURPOSE

The purpose of the verification program is to verify the receipt of materials, supplies, and equipment paid for by the Agency under the FEDSTRIP/MILSTRIP system; to identify any areas of procedural difficulties; and to recommend improved systems and/or the establishment of new accounts which would facilitate subsequent verification.

II. BACKGROUND

- A. Since 15 December 1966, payments have been made by the Office of Finance for the procurement of supplies, materials, and equipment through FEDSTRIP/MILSTRIP sources according to the "constructive evidence of receipt" concept and recorded in the general ledger account No. 606. Acquisitions by the Office of Logistics of such procurement are recorded in the general ledger account No. 607. In coordination with the Office of Logistics, the Office of Finance is responsible for internal site audits of Logistics receiving reports to verify deliveries against FEDSTRIP/MILSTRIP requisitions.
- B. The initial program on the verification of receipt of goods paid for under the FEDSTRIP/MILSTRIP systems was submitted to you in our memorandum dated 14 April 1967 (Tab "A" attached). The program provided a summary of the accounts, reports, and procedures currently available for the verification review. The review consisted of a preliminary meeting held on 1 June 1967 between members of the verification team and those members of the Office of Logistics involved in the FEDSTRIP/MILSTRIP activity and an on-site visit during the period 8 June 1967 through 12 June 1967 at the
- C. "Matched" items occur when amounts paid by Office of Finance for FEDSTRIP/MILSTRIP procurement are in agreement with amounts recorded for the acquisition of this property, and such transactions do not appear on the general ledger account No. 606/607 machine listing. "Unmatched" items occur when amounts recorded for payment of FEDSTRIP/MILSTRIP procurement and the related acquisition costs are not in agreement; the difference is shown on the listing as an unresolved difference.

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III. SELECTION OF ITEMS TO BE VERIFIED

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- A. There were 6,363 PEDSTRIP/MILSTRIP transactions with a dollar value of [] recorded in general ledger account No. 606 as of 31 March 1967. Of these transactions, there were 1,972 in excess of \$100 with a dollar value of [], and 4,391 of less than \$100 with a dollar value of []. The transactions in excess of \$100 represented thirty-one per cent of the total transactions and ninety-seven per cent of the total dollar value. The transactions of less than \$100 represented sixty-nine per cent of the total transactions and three per cent of the total dollar value.
- 25X1
- B. From this broad base of data approximately fifteen per cent of the transactions over \$100 and approximately three per cent of the transactions less than \$100 were selected for review. There were 252 "unmatched" transactions and 28 "matched" transactions with a dollar value of [] in the over \$100 group. There were 28 "unmatched" transactions and 95 "matched" transactions with a dollar value of \$4,714 in the less than \$100 group.
- 25X1
- C. Working papers were prepared on the selected items and provided the basis for the verification of the receipt of property paid for under the PEDSTRIP/MILSTRIP systems. The verification program also identified causes of difference requiring remedial action and/or policy changes. The examination of the source material represents the first review completed under this activity.

IV. FINDINGS

A. VERIFICATION OF RECEIPT OF PROPERTY

1. Ninety per cent of all transactions selected for the test were proven that the related property had been received and correctly recorded.
2. Ten per cent of all transactions selected for the test were proven as to receipt of property; however, receiving reports had been prepared but not recorded, were not prepared, or were unavailable during the review. We were informed that the majority of these unrecorded transactions was due to a misunderstanding [] concerning instructions received on transmittal manifests and receiving reports. Follow-up action is being taken by the Office of Logistics on one hundred per cent of the transactions.
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V. DISCREPANCIES NOTED IN RECORDING RECEIPTS OF PROPERTY

A. The examination of the acquisition documents revealed procedures which result in "unmatched" transactions on the machine listing. A few discrepancies were noted involving coding errors; errors in extending unit price; and direct delivery discount for which adjustments have now been made or in process of being made. Other instances noted were found to be significant and to require remedial action and/or policy changes. In all instances verification was made that the property had been received. The significant instances and the number of exceptions noted under each category are presented below:

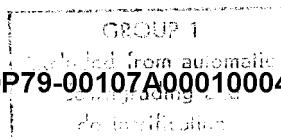
1. Failure to Change Unit Price - 35 Instances

Failure of the Stock Control Unit to change the receiving report to the unit price on vendors packing slips is the most significant factor contributing to acquisition discrepancies. One of the underlying elements of the "constructive receipt" concept as applicable to the FERRISIP/ALLSERIP program, is to accept the vendors price shown on the packing slips as the amount to be billed. The difference between the payment amounts and the acquisition amounts is minimal.

2. Transportation, Packing and Handling (TPH) - 31 Instances

Another significant factor in the development of "unmatched" entries on the machine listing is the inconsistent use of the TPH charges. Some instances were noted where the TPH charges were added on the receiving report even though such charges were not shown on the supplier's packing slip. In other instances a factor of 6.3% was used in one period and a different factor of 6.7% was used in another period. The result of this procedure was that the adjusted acquisition amount was not in agreement with the related amount paid for the procurement.

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3. Quantities Billed and Received - 13 Instances

The discrepancies noted cover those instances of overbilling or underbilling resulting from quantities shown to have been received by a warehouseman not in agreement with the applicable quantities listed on billings. In such instances amended receiving reports or inventory adjustments are required.

4. Unit of Issue Conversion - 4 Instances

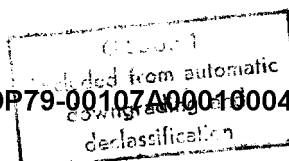
Billings by the supplier had unit costs quoted [] but the Office of Logistics changed these unit costs to feet. We were informed that stock management policies require acquisition amounts in these instances to be recorded in the latter unit of measure. While the difference between the payment amounts and the acquisition amounts for each transaction is nominal, they nevertheless contribute to the total of "unmatched" items. The unit price as shown on the vendors shipping document should be recorded as billed with an adjustment at the time the items are acquired.

25X1

VI. IDENTIFICATION PROBLEMS OF FEDSTRIP/MILSTRIP ITEMS

- A. The current machine listing is a bulky document seven inches thick including FEDSTRIP/MILSTRIP and commercial vendor transactions. FEDSTRIP/MILSTRIP procurement cannot be identified readily from commercial procurement because both types of procurement may have the same numbered purchase order. Verification of receipt of property can be facilitated with the establishment of new general ledger accounts for the FEDSTRIP/MILSTRIP actions. The present computer programs are geared to recognize both commercial and other agency procurement. However, this control hinders rather than helps the examination or audit process. In the age of management by exception, a unique program to recognize the qualities and problems through computer usage is paramount.
- B. Acquisition of FEDSTRIP/MILSTRIP property is recorded in accordance with the fiscal year in which it is received in contrast to the fiscal year in which the related purchase order is prepared. This procedure results in a technical "unmatched" transaction and prolongs the time required to manually match the payment transaction with its applicable acquisition transaction. The problems resulting would be overcome by building a computer program to recognize the fiscal year in the FEDSTRIP/MILSTRIP number by insertion of the number by Office of Finance and Office of Logistics.

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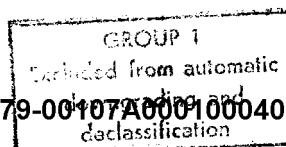
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VII. CONCLUSIONS

- A. Because ninety per cent of the selected transactions were verified and the remaining ten per cent were resolved satisfactorily, it is the opinion of the verification team that all property paid for has been received. The basis of selection of those transactions examined is sound and comprehensive and no exception can be developed to the validity of payments for FEDSTRIP/MILSTRIP procurement.
- B. FEDSTRIP/MILSTRIP procurement should be segregated from commercial transactions to facilitate review and adjustment.
- C. Acquisition documents should be posted with the same fiscal year indicator as shown on the related purchase order.
- D. A uniform procedure is required for recording transportation, packing and handling costs as related to receipts of property.
- E. A change in procedure is required to record receipt of property in the same unit of measure as that listed on packing slips.
- F. Cost per unit as shown on receiving reports should coincide with the related cost per unit on packing slips.
- G. Differences in quantities shown to have been shipped with related quantities listed as having been received should be adjusted by amended receiving reports or reports of inventory adjustments.

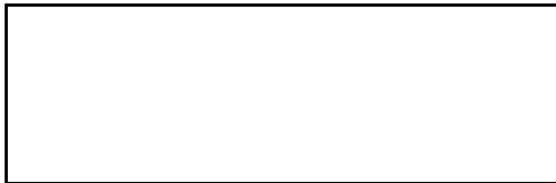
VIII. RECOMMENDATIONS

- A. The concept of "constructive evidence of receipt" should continue to be the basis for payment prior to verification. The program to verify property receipts paid for under the FEDSTRIP/MILSTRIP system should be continued at regular intervals.
- B. Establish new general ledger accounts to record only property procured under the FEDSTRIP/MILSTRIP system.
- C. Publish separate machine listings for each of the following:
 1. All payments with corresponding acquisitions having the same FEDSTRIP/MILSTRIP number and the same dollar value.



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2. All payments with corresponding acquisitions having the same FDSXTRIP/MILSTRIP number and different dollar value.
3. All payments having no corresponding acquisitions.
4. All acquisitions having no corresponding payments.
- D. Control machine listings on the last eight digits of the FDSXTRIP/MILSTRIP number in sequential order and group by the first six characters.
- E. Reflect total dollar value and line item count on machine listings.
- F. Balance dollar value of all machine listings to the general ledger accounts.



Authorized Certifying Officer



Chief, Certification and Liaison Division

Recommendations as Stated in Para VIII are Hereby Approved:

Date

Director of Finance

Distribution:

O. & 1 - Adse(D/F)

1 - PPS

1 - OL

1 - C&L

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GROUP 1
Excluded from automatic
downgrading and
declassification